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17 CHAIRPERSON JAMES:

18 Mr. Goodman?

19 MR. GOODMAN: Thank you for the opportunity

20 to speak here this afternoon. I think the work of your

21 committee is probably the most important effort by the

22 federal government to examine this issue. I want to

23 talk a little bit about my own interests in gambling.

24 I have gambled myself, I've done it for a long time,

1 people used to bet on my pool games when I was younger.
2 I've gambled in casinos, I've gambled privately. I
3 think there is a moral issue in gambling, it doesn't
4 happen to be my issue, but I think it's a serious one
5 for a lot of people and I think it ought to be taken
6 seriously.

7 My concern, and the reason I got involved
8 in this, is I was thinking about the role of government
9 in gambling, the role of government in establishing
10 gambling policy, some of the things that Dan Bosley has
11 been talking about.

12 My research before I looked at this was how
13 cities and states do economic development policy. When
14 I looked at gambling, originally with a grant from the
15 Ford Foundation and the Aspen Institute, I wanted to
16 see what it did in terms of economic policy, did it
17 actually increase revenues, did it create jobs? And I
18 was also interested in how it effected the political
19 process.

20 And in addressing the issue I won't go into
21 that broad overview, I'd like to stick to the issue of
22 lotteries today, although most of what you'll hear
23 about lotteries have to be discussed in a more broad
24 view of government gambling policy.

1 You've heard a lot I'm sure in the past two
2 days, I certainly heard it in the last panel, about the
3 upside of lotteries. And I won't spend much time
4 talking about that, clearly they can bring in lots of
5 revenues, you can use it for education, you can use it
6 for budgets, you can use it for scholarships, a whole
7 host of things, prescriptions for the elderly, et
8 cetera.

9 But there is a downside and I think that
10 needs to be addressed and I will talk about those
11 issues this afternoon, basically, in terms of gambling
12 as public policy. I'd like to make three points and
13 normally I don't like to just read from a script, but
14 given that I have very limited time I'll try to stick
15 to it as best I can. I probably won't do as well as
16 Dan did.

17 There are three points I'd like to make
18 this afternoon. First, over the past thirty odd years,
19 many state governments have shifted from being
20 regulators of gambling to being promoters of gambling.
21 This shift has created a vacuum in which important
22 public policy is being made by state lottery agencies
23 without informed input from elected representatives or
24 the public.

1 The second, there need to be major changes
2 in the oversight and regulation of state lotteries and
3 other state sponsored gambling ventures in order to
4 protect the public. And I'll make some recommendations
5 for that briefly.

6 And third, I'd like to suggest at least one
7 approach as an example of how government operated
8 lotteries can build on the more positive aspects of
9 this experience. Not long ago, a lawyer who was
10 defending the tobacco companies in their case with the
11 states asked me to be an expert witness. When I asked
12 him why, he explained that his firm would like to
13 counter the state's claim that tobacco companies
14 promote a product they know can lead to harmful,
15 addictive and dangerous behavior, with the argument
16 that the tobacco companies are being unjustly singled
17 out for prosecution while the states do the very same
18 thing when it comes to lotteries.

19 Now, realizing, as my parents once
20 explained to me, that two wrongs don't necessarily make
21 a right, even if someone is willing to pay you a lot of
22 money to say so, I turned the lawyer down. But the
23 reality is that state governments have indeed
24 aggressively moved in the direction of shifting from

1 being the regulator of a potentially harmful activity
2 to promoting that activity. And when government does
3 this, we must ask ourselves, who will regulate and
4 protect the government?

5 Unfortunately, and I think this is one of
6 the main parts of the problem, politicians and state
7 lottery directors have tended to treat their lotteries
8 as private businesses rather than as a unique form of
9 tax policy, which indeed is what they are. When you
10 are running a gambling business this means getting
11 people who don't usually gamble to do it and getting
12 those who do do it to gamble more often. I wrote about
13 how lotteries do this in my book, The Luck Business,
14 but let me just cite a few examples here.

15 States now spend close to \$400 million a
16 year advertising their lotteries. In contrast to the
17 ventures of organized crime, government sponsored
18 gambling is also given free publicity through newspaper
19 and TV stories about incredible jackpots, happy
20 winners, transformed lives. Politicians have usually
21 argued that by legalizing gambling governments would
22 capture money that was already being bet illegally and
23 eliminate the role of organized crime. Yet criminals
24 never promoted their gambling operations with million

1 dollar advertising campaigns and public relations
2 efforts.

3 In trying to stimulate more demand for
4 their products, lotteries have become adept at
5 manipulating player behavior through sophisticated
6 market research and advertising. Explaining its
7 promotional campaign, the New York State Lottery said
8 its player's fantasies were given the hope of
9 fulfillment and that the lottery offered people a
10 chance to dream about paying off their debts or paying
11 for their children's educations. This was the
12 rationale that that lottery had given, other lotteries
13 have offered similar explanations.

14 Now, I'm very sympathetic to the
15 schizophrenic position of lottery directors and I think
16 it is a schizophrenic position. I've interviewed a
17 number of directors and in my interviews with them one
18 director told me about the mixed message he'd received
19 in public criticism of his work, legislators complained
20 about the advertisements and promotions, but the bottom
21 line of keeping his job he said, ultimately depended on
22 politicians judging him by the revenues he generated.
23 My success or failure, he said, was how sales were.
24 Were my sales better than last year or were they worse?

1 Lotteries have come to depend on a
2 relatively small number of people spending large
3 amounts of money. Nationally, by 1992, only 15 to 20
4 percent of lottery players accounted for about 70 to 80
5 percent of all lottery sales. But enticing less
6 frequent players can only be maintained by aggressive
7 advertising, continued infusion of higher jackpots,
8 more frequent drawings and new games. You heard about
9 some of the problems of the Massachusetts Lottery just
10 now.

11 As one former lottery director said, the
12 lotteries have to be massaged to retain the excitement
13 of the public. Another said his tickets had to be
14 aggressively marketed, just like any other consumer
15 product. You've got to come up with the improved Ivory
16 Snow and the new and improved Ivory Snow.

17 Since government exempts state lotteries
18 from most federal regulations that apply to private
19 marketing practices, lottery agencies have a wider
20 latitude to promote their products. While the federal
21 government once prohibited lotteries from advertising
22 on radio and television, today such advertising is
23 legal in every state.

1 Lottery directors -- and this is one of the
2 most serious problems, I think. Lottery directors
3 often set targets to increase gambling revenues. The
4 late Connecticut Lottery director, who was tragically
5 murdered just a short while ago, had set a target of
6 increasing lottery revenues by 15 percent each year. A
7 yearly increase of 15 percent translates into doubling
8 lottery per capita every five years.

9 Now, imagine what would happen if a
10 politician suggested increasing taxes by 15 percent
11 every year. He or she would have to answer to his or
12 her constituents, the media, as well as have to debate
13 the proposal before an elected legislative body. When
14 this is done by lotteries, however, the assumption
15 seems to be, the more revenues the better. And I think
16 you've heard that here, I certainly did, in the last
17 panel.

18 If you play, you figure you might strike it
19 rich and if you don't play I guess you figure you let
20 someone else pay for your government expenses, the
21 services. This doesn't exactly fit the model of
22 cultivating a more civil society. In the absence of an
23 effective regulatory environment there is no one to

1 examine if lottery agencies are acting appropriately,
2 in the best interests of the public.

3 We currently depend on newspaper stories,
4 occasional legislative oversight and just plain public
5 outrage to bring about changes in questionable
6 practices. Let me just give you three examples, and
7 you heard some this morning I guess. The Illinois
8 Lottery, once placed billboard ads in poor black
9 neighborhoods to encourage lottery play with the
10 message: "This could be your ticket out." After public
11 pressure, the lottery removed the ad.

12 Last year, again, you heard this,
13 Commissioner Lanni mentioned, last year the Colorado
14 State Lottery was embarrassed into admitting that it
15 hired behavioral research firm called Mind Sort, which
16 analyzed which parts of the brain people used to
17 gamble. The public and legislators only learned of
18 this after there were a number of television and
19 newspaper stories about the practice.

20 And here in Massachusetts, you probably
21 heard, the State Lottery, in its zeal to increase
22 revenues has shown an unusual disregard for the mandate
23 of the state legislature. Last year, according to a
24 series of investigative reports in The Boston Globe,

1 followed by a legislative committee report, the Lottery
2 was said to have circumvented a legislative cap on
3 advertising by distributing \$8 million worth of free
4 play coupons to businesses as a substitute currency in
5 exchange for advertising and promotions.

6 I'd like to make some recommendations,
7 they're brief recommendations and certainly they ought
8 to be thought through. But it seems to me that in
9 looking at this issue the Commission might want to
10 consider some of these and certainly others, as a
11 possible way of considering more effective ways of
12 regulating the lotteries.

13 I believe the states with legalized
14 gambling should create an independent agency, not left
15 up to the lottery itself, not left up to an occasional
16 legislative committee, an agency that would
17 continuously monitor and regulate all forms of
18 gambling, including lotteries. Members of these
19 agencies should be free of any agendas to promote
20 gambling and be free of ties to politicians with such
21 agendas.

22 The intention here is not to prohibit
23 gambling but to prohibit the promotion of gambling.
24 Included in this agency's function would be to

1 carefully look at any form of promotional materials
2 intended to increase gambling, any form of behavioral
3 and other research intended to increase gambling, any
4 increase in revenues targeted by lottery. Such
5 increases should be subject to open political debate
6 with pros and cons set before the public and the media.

7 Lotteries should not be allowed to set
8 their own growth targets. Any proposals for increased
9 gambling in the state, these proposals should require a
10 comprehensive and objective analysis of the social and
11 economic and political impacts.

12 And lastly, the establishment of an
13 independent formal program to counter the positive
14 image too often associated with gambling on lotteries,
15 especially for young people. I believe the California
16 program which uses taxes on cigarettes to pay for a
17 program to discourage smoking is one model that should
18 be considered.

19 The last thing I'd like to talk about is
20 something that we've been working on at the U.S.
21 Gambling Research Institute, it's an alternative form
22 of a lottery, something we call an investment lottery.
23 This is just one alternative to the current direction
24 of government gambling policy. It's a modest idea

1 which I believe could have a major impact on the way we
2 operate government lotteries.

3 It's based on a fundamentally different
4 kind of gambling, one in which prizes are awarded to
5 some winners but where all the money spent for lottery
6 tickets is eventually returned to the bettors. A
7 version of this idea now exists in New Zealand and it's
8 being considered by the State of Idaho.

9 Actually, this lottery is something that
10 was invented at the beginning of when lotteries were
11 considered over 300 years ago, in England. The King
12 and Queen would periodically run out of money for
13 public works projects and whenever they needed extra
14 money they would have a lottery. They never thought of
15 people just gambling and giving the money to government
16 so they said they would pay it back after ten years
17 with interest.

18 In my update of this idea, the state would
19 sell one dollar investment lottery tickets, similar to
20 the way they sell lottery tickets now, offering a way
21 to earn jackpot prizes. My suggestion would be capped
22 in the range of \$10 to \$30 thousand dollars, not the
23 megajackpots. Actually, as you've heard, it's actually
24 the small jackpot, the small instant ticket prizes that

1 attract most of the players. And I would suggest that
2 most of the prizes be small ones, similar to the ones
3 offered in instant tickets.

4 In the investment lottery, the state would
5 also repay all non-prize winning ticket holders who
6 would accumulate at least \$100 worth of tickets in a
7 one year period. They'd receive their original ticket
8 price plus interest after five years, with the interest
9 calculated on an annual basis of two percent less than
10 the going rate of a five year bank certificate of
11 deposit at the time the ticket was purchased.

12 This low interest borrowing would in turn
13 make it possible for the government to lend money to
14 local businesses and community development corporations
15 at low interest rates.

16 Today, one third of Americans have no
17 savings at all, another third have savings of less than
18 \$1,000. We also know that low income people are a
19 major sector of lottery players, an investment lottery
20 would not only provide money for expanding jobs, it
21 would also encourage those people who save the least to
22 save more. A national shift of only five percent in
23 lottery play would result in almost a billion dollar
24 increase in personal savings.

1 These recommendations here today are
2 obviously only a small part of what needs to be a much
3 broader effort to reexamine government gambling policy.
4 The overriding goal I believe, should be to shift from
5 government policies which simply promote more
6 opportunities for people to lose more money and towards
7 ones which protect people from deceptive promotions,
8 encourage savings and lead to the creation of
9 productive jobs and real hope for economic security.

10 I thank you for the opportunity.

11 CHAIRPERSON JAMES: Thank you, Mr. Goodman.